

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 /101 W
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R 082014Z SEP 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 7152
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO

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PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: N/A
TAGS: EFIN, FR
SUBJECT: 1979 GOF BUDGET

1. INTRODUCTION AND SUMMARY

THE MOST IMPORTANT CONCLUSION THAT ONE CAN DRAW FROM THE DESIGN OF THE 1979 BUDGET IS THAT THE FRENCH GOVERNMENT WILL CONTINUE ITS POLICY OF THE PAST TWO YEARS OF NOT USING THE BUDGET IN ANY SUBSTANTIAL WAY TO EXPAND THE ECONOMY. BARRE CONTINUES TO RELY ON THE PRIVATE SECTOR AND EXPORTS FOR THAT PURPOSE. THE GENERAL POLITICAL REACTION HAS BEEN NEGATIVE FOR EXACTLY THAT REASON. HOWEVER, THE GOF IS PREPARED TO FINANCE A NUMBER OF PROGRAMS TO TAKE CARE OF THE MOST DEPRESSED SECTORS AND GROUPS AS IT HAS IN THE PAST. THE INITIAL DEFICIT, WHICH IS INVARIABLY SMALLER THAN THE FINAL ONE, IS 15 BILLION COMPARED TO 8.9 BILLION IN 1978. BUT
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THE ULTIMATE FIGURES MAY TURN OUT TO BE SOMEWHAT LARGER THAN THE UNEXPECTEDLY HIGH RESULT OF 27 BILLION FRANCS NOW PROJECTED FOR THIS YEAR. THE PROMISE, MADE IN JANUARY, NOT TO INCREASE THE RATE OF THE INCOME TAX, HAS BEEN KEPT; BUT LOST REVENUE HAS BEEN MADE UP PRIMARILY THROUGH HIGHER TAXES ON SUCH ITEMS AS PETROLEUM, TOBACCO AND LIQUOR.

END SUMMARY

2. THE INITIAL BUDGET DEFICIT OF FF 15 BILLION FOR 1979 IS THE NET RESULT OF THE NEED FOR SOCIAL SPENDING, THE PLEDGE NOT TO INCREASE INCOME TAX RATES, MODIFIED BY THE OBJECTIVE OF KEEPING CONTROL ON THE MONEY SUPPLY. THE 1978 DEFICIT HAS TURNED OUT TO BE SIGNIFICANTLY LARGER THAN EXPECTED DUE TO ADDITIONAL EXPENDITURES TO AID THE ECONOMY SUCH AS THE YOUTH EMPLOYMENT PROGRAM AND A SHORTFALL IN RECEIPTS RESULTING FROM A SLOWER RATE OF ECONOMIC GROWTH THAN WAS ORIGINALLY FORECAST. THE GOF FEELS THAT THE 1979 DEFICIT IS A FULFILLMENT OF ITS PROMISE AT THE BONN SUMMIT. ACCORDING TO THE GOF, THE 1979 DEFICIT CAN BE FINANCED WITHOUT MONETARY CREATION, BUT IT IS ALMOST CERTAIN THAT IT WILL HAVE TO RESORT TO BANK CREDIT TO FINANCE THE CURRENT DEFICIT. IT STRESSES THAT ITS ULTIMATE OBJECTIVE IS A RETURN TO BUDGET EQUILIBRIUM.

3. THE ESTIMATES FOR THE 1979 BUDGET ARE BASED ON THE FOLLOWING FORECASTS:

GNP #3.7 PERCENT
HOUSEHOLD CONSUMPTION #3.8 PERCENT
INVESTMENT OF PRIVATE
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NON-FINANCIAL FIRMS #5.5 PERCENT
INVESTMENT OF LARGE
NATIONALIZED COMPANIES #9.5 PERCENT
EXPORTS #6.0 PERCENT
IMPORTS #7.0 PERCENT
RATE OF INFLATION #7.9 PERCENT

THE FORECAST FOR REAL GNP IS CONSIDERABLY LOWER THAN THE PRELIMINARY FORECASTS FOR THE PREVIOUS TWO YEARS. HOWEVER, THE 5.5 PERCENT INCREASE IN INVESTMENT BY PRIVATE NON-FINANCIAL FIRMS APPEARS RATHER HIGH.

4. THE 1979 BUDGET PROVIDES THAT EXPENDITURES WILL INCREASE AT A SLIGHTLY HIGHER RATE OF GROWTH THAN GNP.

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BUDGET EXPENDITURES WILL INCREASE BY 15.2 PERCENT FROM THE INITIAL 1978 BUDGET AND WILL TOTAL FF 459 BILLION. (THE NOMINAL GNP IS PROJECTED TO INCREASE BY 12.9 PERCENT, REACHING FF 2,100 BILLION IN 1979.) ESTIMATED GOF REVENUE IN 1979 IS FF 446 BILLION, AND THE NET CHARGE FOR OPERATIONS OF A TEMPORARY NATURE IS FF 2 BILLION. THIS RESULTS IN A DEFICIT IN 1979, OF 15 BILLION FRANCS, COMPARED TO THE 1978 INITIAL DEFICIT OF FF 8.9 BILLION WHICH HAS BEEN REVISED UPWARD TO FF 27 BILLION.

5. THE GOF ACCOMPANYING STATEMENT EMPHASIZES THAT THE NUMBER ONE PRIORITY IS SELECTIVE EMPLOYMENT CREATION. OVERALL EXPENDITURES FOR SOCIAL PROGRAMS WILL INCREASE BY 23.9 PERCENT. THE PUBLIC SECTOR WILL DIRECTLY INCREASE ITS LABOR FORCE BY 22,400 JOBS ALTHOUGH ITS OPERATING COSTS WILL INCREASE BY ONLY 11.9 PERCENT DUE TO THE POLICY OF MODERATION OF CIVIL SERVANTS' LIMITED OFFICIAL USE

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SALARIES. AID TO THE NATIONALIZED COMPANIES WILL BE SIGNIFICANTLY LOWER AS A RESULT OF THE RISE OF PUBLIC UTILITY AND TRANSPORT RATES THIS YEAR. PUBLIC WORKS SPENDING WILL INCREASE BY 9.7 PERCENT; MILITARY EXPENDITURES ARE ESTIMATED TO INCREASE BY 14 PERCENT

IN 1979, BUT AUTHORIZATIONS WHICH WILL AFFECT FUTURE
SPENDING RISE BY 24.6 PERCENT.

6. DURING HIS KEYNOTE SPEECH AT BLOIS IN JANUARY,
PM BARRE PROMISED NOT TO INCREASE THE BURDEN OF
TAXATION AND SOCIAL SECURITY ON INDIVIDUALS AND
BUSINESS. BUT SOME SMALL ADDITIONAL RECEIPTS,
AMOUNTING TO FF 6.9 BILLION, WILL COME PRIMARILY
FROM AN INCREASE IN TAXES ON PETROLEUM, LIQUOR
AND TOBACCO. THE TAX ON HIGH OCTANE GASOLINE WILL
BE INCREASED BY 13 CENTIMES PER LITER AND THAT OF
REGULAR GASOLINE BY 12 CENTIMES. HOWEVER, THIS
MAY NOT BE FULLY REFLECTED IN THE PUMP PRICE IF
THE FRANC CONTINUES TO APPRECIATE VIS-A-VIS THE
DOLLAR. THE TAX ON LIQUOR IS TO BE INCREASED BY
10 PERCENT, ON TOBACCO AND CIGARETTES
BY 8 PERCENT AND ON CAR REGISTRATIONS BY 2 FRANCS
PER HORSEPOWER.

CERTAIN TAX INCENTIVES ARE DESIGNED TO BENEFIT SMALL
AND MEDIUM SIZE FIRMS DURING THE FIRST TWO YEARS OF
THEIR EXISTENCE AND TO ENCOURAGE THE CONSERVATION OF
ENERGY.

IN THE INTERESTS OF MODEST INCOME REDISTRIBUTION,
THE GOF HAS TAKEN VARIOUS STEPS TO INCREASE THE
RELATIVE TAX BURDEN ON THE HIGHER INCOMES
GROUPS. THE TWO HIGHEST BRACKETS WILL NOT BE FULLY
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ADJUSTED FOR THE EFFECTS OF INFLATION. THE
ACROSS-THE-BOARD DEDUCTION ON INCOME RECEIVED
FROM RENTAL PROPERTY EFFECTIVELY INCREASES TAXES PAID
WHILE THE TAX ON THE PURCHASE OF A SECOND HOME HAS
BEEN INCREASED. A CEILING HAS BEEN SET ON THE
DEDUCTIONS FOR BUSINESS EXPENSES OF SALARIED WORKERS
WHILE THE MINIMUM DEDUCTION HAS BEEN INCREASED.

7. ON BALANCE , REVENUE INCREASES HAVE AVOIDED MAJOR
CHANGES IN RATES OR THE USE OF THE TAX SYSTEM TO ACHIEVE
NEW ECONOMIC OR SOCIAL OBJECTIVES.

8. FURTHER DETAILS AND ANALYSIS WILL BE REPORTED WHEN
THE BUDGET BILL IS SUBMITTED TO THE NATIONAL ASSEMBLY.
HARTMAN

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